

South Carolina Department of Insurance

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BULLETIN NUMBER 2007-13

TO: All Insurers Transacting Workers' Compensation Property and Casualty Insurance Business in South Carolina

FROM: Scott H. Richardson, CPCU 
Director

SUBJECT: New Procedures for Loss Cost Multiplier Filings

DATE: August 29, 2007

I. Purpose

The purpose of this bulletin is to set forth the requirements for submission of loss cost multiplier filings to this Department. South Carolina law requires "every workers' compensation insurer, including the parties to any mutual insurance association, to be a member of a non-partisan rating bureau." *See* S.C. Code Ann. § 38-73-510 (2002). The National Council on Compensation Insurance (NCCI) is the rating bureau in South Carolina and files the loss costs on behalf of its member companies. Loss costs are subject to approval by the South Carolina Department of Insurance (Department). Prior to June 11, 2007, loss cost multipliers had been exempt from prior approval pursuant to 2002 S.C. Act No. 300, which deregulated commercial lines insurance policies.

The exemption provided in §38-73-520 no longer applies to loss cost filings by advisory or rating organizations or to the loss cost multipliers¹ developed by a workers' compensation insurer. *See* 2007 S.C. Acts 0111. Section 38-73-525 requires that "every insurer writing workers' compensation insurance must file its multiplier (i.e., loss cost multiplier (LCM)) for expenses, assessments, profit, and contingencies and any information relied upon by the insurer to support the multiplier and any modifications to loss costs" with the Department for approval. The statute further specifies the minimum information that must be contained in the filing.

¹ The loss cost multiplier is applied to approved loss costs to develop the insurer's rate.

II. Calculation of Company Loss Cost Multiplier

The attached LCM form must be completed in its entirety. This form contains the minimum information required by statute and corresponds to the form previously submitted as part of the loss cost multiplier data call. The filing must contain, at a minimum, the following information: commission expense; other acquisition expense; general expense; second injury fund assessments, guaranty fund assessments; other assessments; premium taxes; miscellaneous taxes, licenses, or fees; and provision for profit and contingencies. The filing must be made with the Department 30 days prior to using the new rates. A copy of the filing must be provided simultaneously to the Consumer Advocate. Insurers must provide a complete justification for the multiplier and any modifications to the loss costs for the most recent LCM filing only.

The following information must accompany each LCM filing:

- (a) the class of business to which the multiplier applies;
- (b) supporting data and/or rationale for loss cost modification, if any; including a comparison of the Company's expected ultimate losses from past years (including IBNR) to the expected loss and LAE underlying the standard premium; and
- (c) the reasons for any expected expense differential (such as an additional loss control expense or lower commission).

In addition, all expenses reported are as a percentage of standard premium. Please provide the most recent Insurance Expense Exhibit for comparative purposes and the LCM worksheet promulgated by the Department.

Please attach all necessary support and documentation when filing your loss cost multiplier. Please do not hesitate to contact Carla Griffin if you have any questions about how to complete the worksheets. Ms. Griffin may be reached via e-mail at cgriffin@doi.sc.gov or at (803) 737-6230.

South Carolina Department of Insurance
Loss Cost Multiplier Worksheet
Workers' Compensation - Direct Voluntary Only

- (1) Company Name (Full Name Consistent with NAIC Database)
(2) Company NAIC Code
(3) Class to which this form applies
(4) Effective date for policies on or after xx/xx/xx

- (5) South Carolina WC Direct Written Premium (NAIC Stat Page 14)
(6) Voluntary Direct Written Premium

2006	2007

- (7) Loss Cost Multiplier in effect on 7/1/xx date shown

2006	2007

- (8) Effective Date of NCCI Voluntary Loss Cost to which the multiplier is applied

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- (9) Company Loss Cost Modification Factor

In-Force	Proposed	% Change

Reflects adjustment to loss costs to reflect differences between company loss costs and NCCI's benchmark loss costs. If different than 1.0, attach supporting data and/or rationale for the modification.

- (10) Expense Components

Expense Loading Underlying Loss Cost Multiplier Compared to Standard Premium at Company Rates

(10a) Commission & Brokerage

(10b) Other Acquisition

(10c) Subtotal (10a)+(10b)

(10d) General Expenses

(10e) Other Expenses

(10f) Second Injury Fund Assessment (ie. Expense Associated with SIF)

(10g) Guarantee Fund Assessment

(10h) Other Assessment

(10i) Taxes, Licenses & Fees

(10j) Subtotal (10f)+(10g)+(10h)+(10i)

(10k) Profit Provision

(10l) Investment Income Offset

(10m) Profit after Investment Income (10k)-(10l)

- (11) Total Projected Expenses (10c)+(10d)+(10e)+(10j)+(10m)

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- (12) Overall impact of expense constant and minimum premiums
(Express 2.3% as 1.023)

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- (13) Overall impact of size-of-risk discounts
(A 7.5% impact would be expressed as 0.925)

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- (14) Calculated Loss Cost Multiplier: (Line 9) / { [(Line 13) - (Line 11)] * (Line 12)}

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- (15) Selected Loss Cost Multiplier

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- (16) Describe difference between calculated and selected LCM

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- (17) Are you amending your minimum premium formula or expense constant?

If yes, attach documentation including rate level impact as well as changes in multipliers, expense constants, etc.

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- (18) Are you amending your premium discount schedule?

If yes, attach schedules and support detailing premium or rate level change.

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